



**Gary L. Smith, Senior Vice President
Finance Revenue & Bonding Committee
February 9, 2009
Opposition to SB 807, SB 808, SB 815,
HB 6348, HB 6349, HB 6350**

Good Afternoon. My name is Gary Smith. I am Senior Vice President of Government Relations at Travelers. Joining me today is Joanne Garvin, Vice President of Corporate Tax.

Travelers is a leading property casualty insurer selling primarily through independent agents and brokers. We have more than 33,000 employees countrywide, 7,000 of whom are in Connecticut. We offer a wide range of coverage in the auto, home and business settings. Travelers is proud of its long standing and historic ties to Connecticut and Hartford, which has long been seen as the Insurance Capital of the World. In Connecticut, we are the third largest commercial insurance writer, third largest homeowners writer, and the fourth largest auto insurance writer.

I am here to express Travelers' opposition to SB 807, SB 808, SB 815, HB 6348, HB 6349, HB 6350. Each of these six bills have the potential to significantly impact Travelers, the insurance industry and the business community as a whole. At a time when President Obama and Congress are hard at work looking for ways to turn the economy around and put people back to work, introduction of these bills runs counter to economic investment and job creation. We don't think Connecticut wants to send that message.

- SB 807 - *An Act Concerning Combined Reporting for Purposes of the Corporation Business Tax* - imposes a mandatory combined income tax approach in Connecticut. The cost of SB 807 to companies is potentially quite high and could also result in retaliatory taxes in other states for insurers based in the state.

- SB 808 – *An Act Increasing Fees and Fines* - increases all fines and fees levied in any section of the General Statutes by 25% as of April 1, 2009. The retaliatory taxes Connecticut insurers pay in other states could increase if certain fees are increased under the legislation.
- SB 815 – *An Act Concerning A Moratorium On Business Tax Credits* - places a moratorium on tax credits allowed for corporations and disallow business tax credits for income years 2009 and 2010. Any company that utilizes tax credits in its tax planning would be negatively impacted by this moratorium.
- HB 6348 – *An Act Concerning Corporation Business Tax Credits* - imposes an application process in order to claim tax credits and would limit the state's overall exposure for such credits to \$100 million. Tax planning for credits would become largely obsolete as taxpayers would not be assured of receiving the credits applied for under this approach. The bill also eliminates credit carry-forwards. These provisions would severely limit companies' utilization of credits.
- HB 6349 – *An Act Concerning The Sales Tax On Services* – imposes sales tax on “professional, insurance, occupational or personal service transactions”. The definition of “insurance” service is unclear and could include insurance premiums. No other state imposes a sales tax on insurance premiums. Such a tax would be unprecedented and considerable in amount.
- HB 6350 - *An Act Eliminating Exemptions From The Sales And Use Tax And Lowering The Rate Of Such Tax* – lowers the sales tax rate to 5% from 6%, eliminates most exemptions including the exemption for the sales of services between 100% owned affiliates and increases the tax rate on data processing services from 1% to 5%. A sales tax on intercompany services, if enacted, is effectively a tax on internal business activity. Such a tax is particularly punitive for insurers which, for regulatory reasons, operate in a multiple legal entity structure that pool expenses among its affiliated members, which expenses would now be taxed. Also, the bill increases the sales tax rate on data processing services, including electronically delivered software, from 1% to 5%, of which insurers are large buyers.

When Travelers looks at our ability to provide insurance products at a competitive price, we have to consider every cost component including taxes. Connecticut is our major center of operations and home to 7,000 of our employees. Therefore, this state's tax policies are critical when the company engages in planning for sustainability and growth.

These bills have tax implications that would place additional burdens on all companies doing business in Connecticut. In particular, insurance companies based in Connecticut

would be at a competitive disadvantage compared with insurance companies from other states. Connecticut based insurers could be subject to retaliatory taxes in other states because of the higher taxes non Connecticut based insurers would pay here. Finally, companies whether insurance based or not, would be deterred from placing their operations in this state with these onerous tax measures in place.

Travelers appreciates the difficult task ahead of this legislative body. As a leader in the Connecticut business community, Travelers is willing to participate in a dialogue to address the challenges that face the state and develop solutions which benefit all constituents.